



Tuna dreams revisited: economic contributions from a tuna enterprise in Solomon Islands

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Tuna is one of the few renewable resources available on a large scale for Pacific island countries, and many countries want to develop onshore value-adding processing to generate more domestic economic development from tuna fisheries in the region. The case of Soltai Fishing and Processing (formerly Solomon Taiyo Ltd) provides many useful lessons about the benefits and pitfalls of this development strategy.

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The Central Bank of Solomon Islands has identified fisheries, especially tuna, as one of the sectors with the greatest potential to contribute to economic development in Solomon Islands (Central Bank of Solomon Islands 2005). This was apparent as far back 1970, when the British colonial government was looking to develop industries in addition to copra and logging for the development of the Solomon Islands economy. In 1973, the Solomon Islands Governing Council ratified a joint venture

agreement with the Tokyo-based multinational Taiyô Gyogyô Kabushiki Kaisha, then the largest fishing company in the world. It was hoped that this initiative in tuna fishing and processing operations, as well as the declaration of a 200 nautical mile exclusive economic zone, would establish economic dependence for the Solomon Islands. Such hopes were raised by ideas of a new international economic order which, prompted by the success of the oil-producing OPEC countries, foresaw decolonised states



exercising their new-found sovereignty by selling commodities to generate wealth and development. Pacific island countries had great expectations of what could be achieved from their tuna resources (Schurman 1998).

In 1998, Solomon Islands' fisheries exports (mostly tuna, of which Solomon Taiyo was the largest single exporter) peaked at SBD\$194.18 million and, together with log exports (SBD\$196.27 million), contributed to total exports worth SBD\$608.27 million (Central Bank of Solomon Islands 2001:88). Solomon Taiyo Ltd was at the time one of the largest, and longest running, locally based tuna fishing and processing companies in the Pacific.

Previously, I have argued that, even though the company received ongoing subsidies and donor assistance, Solomon Taiyo contributed greatly to the Solomon Islands economy (Barclay 2000). It was the second largest employer after the government in an economy where only 10 per cent of the working population is formally employed and unemployment is considered a root cause of many social problems (Central Bank of Solomon Islands 2001:16). In addition, the company generated export earnings and launched a number of spin-off businesses.

In 2000, during the period of social and political upheaval known as 'the tensions', the Japanese partner company pulled out of Solomon Taiyo,¹ responding to the difficult business conditions in the country and a significant fall in world tuna prices. Tuna fishing in Solomon Islands was scaled back. Production dropped by 55.9 per cent and the value of formal fisheries exports dropped by 77 per cent (Central Bank of Solomon Islands 2001:18, 28). Collapse of the tuna industry thus contributed heavily to the overall economic disorder in Solomon Islands as GDP declined in real terms by 14 per cent (Central Bank of Solomon Islands 2001:16). Workers laid off from Solomon Taiyo

comprised more than 2,000 of the 8,000 jobs lost during the tensions (Central Bank of Solomon Islands 2001:16). In 2001, the government restarted the venture, without a Japanese partner, as Soltai Fishing and Processing.

Background

Solomon Taiyo started in 1973 with a shore base in Tulagi, the pre-World War II capital of the British Solomon Islands Protectorate. The company opened a small fishing base in Noro, Western Province, in 1975. This base expanded to become the company's main operating centre in 1991, when Tulagi was closed. The head office remained in Honiara. The Noro base included a cannery, a large cold store, wharves and repair shops for the fleet, a fish meal plant, a waste water processing plant, and a smoking factory that produced *katsuobushi*—a flavouring widely used in Japanese cuisine. Solomon Taiyo had a fleet of around 20 pole-and-line vessels and one group seiner. The company employed people from around the country, and a handful of expatriates in management roles.

Solomon Taiyo was jointly owned by the Solomon Islands government and Taiyô Gyogyô (which changed its name to Maruha Corporation in 1993), with the government holding 51 per cent of the shares and Taiyô Gyogyô holding the balance. The company's main market in terms of value was sales of high-quality canned tuna to British supermarket chains, including Sainsbury's. Because Solomon Taiyo's fleet mostly employed the pole-and-line method of fishing, which specifically targets certain species (with a low bycatch) and cannot take entire schools of fish (as does net fishing), it could be marketed as 'environmentally friendly'. Pole-and-line fishing is less efficient than purse-seining—the main method used to catch skipjack tuna for canning—but niche marketing in Britain meant that the



company's product still had a market among consumers willing to pay higher prices for a pole-and-line product.²

From Solomon Taiyo to Soltai

Solomon Taiyo was not financially successful even before 2000: small profits in some years offset losses in others. Installation of the new factory in Noro in 1991 generated a one-off large loss, but the company slowly recovered profitability during the 1990s. The company covered its costs, while its financial structure enabled both shareholders—Maruha and the Solomon Islands government—to draw money from the operating costs of the company rather than waiting for a profit.³

A range of factors brought about the demise of Solomon Taiyo in 2000. Average world prices for frozen skipjack plummeted from US\$980 per metric tonne in 1998, to US\$550 in 1999 and US\$326 in 2000 (Central Bank of Solomon Islands 2001:18). Solomon Taiyo's niche market in the United Kingdom dried up. Sainsbury's retail strategy of paying more for high-quality, socially and ecologically responsible product was undermined by more discount-driven marketing. In 2000 Sainsbury's changed their buying strategy, informing Solomon Taiyo that they would no longer pay a premium price (pers. comm., M. Nakada, 11 July 2005). Committed to pole-and-line fishing, largely uncompetitive on general world tuna markets, and receiving disastrously low prices, Solomon Taiyo looked unlikely to remain even remotely profitable.

At the same time, pressures were building on the Japanese partner. Recession continued in Japan throughout the 1990s, prompting Maruha executives to question the wisdom of retaining non-profit making ventures and financial liabilities, of which Solomon Taiyo was an obvious example (pers. comm., M. Nakada, 11 July 2005). Local legend has it that when the President of Taiyō Gyogyō visited Solomon Islands in the 1970s,

he made a moral commitment to keep Solomon Taiyo going, even if it was not profitable, as a gift to Solomon Islands. Some managers in Maruha in 2000 felt that this commitment should be honored, but the balance of power within the company was shifting towards the commercially rational (pers. comm., M. Sibisopere, 18–19 July 2005).

Maruha was thus flagging the possibility of withdrawing from Solomon Taiyo even before the height of the tensions (pers. comm., M. Sibisopere, 18–19 July 2005). In mid 2000, simmering outbreaks of violence on Guadalcanal peaked in a coup that ousted the Bartholomew Ulufa'alu government. Solomon Taiyo continued operations longer than other large companies, such as Goldridge Mine and Solomon Islands Plantations Limited, but eventually militants disrupted fishing operations, 'sea-jacking' a fishing boat and threatening the lives of the Japanese nationals on board. The Okinawan fishermen's house in Noro was also looted (pers. comm., A. Kukui, 19–22 July 2005; pers. comm., M. Nakada, 11 July 2005). The Japanese media reported on events in Solomon Islands, claiming that Maruha was irresponsible for staying when all the other large companies had already pulled out of the country (pers. comm., A. Kukui, 19–22 July 2005; pers. comm., M. Sibisopere, 18–19 July 2005). The company suspended operations, closed its head office in Honiara and evacuated senior management to Cairns to wait and see what would transpire. Most of the employees were retrenched. By the end of 2000, Maruha had decided to pull out of Solomon Taiyo.

On suspension of operations, the company retained a core of around 170 of the most experienced and skilled employees at Noro to look after the facilities under the leadership of Aseri Kukui, the Personnel and Training Manager. The skeleton staff had limited funds, and when these ran out they started small production runs of canned



product using the 100 metric tonnes of tuna left in cold storage. When the frozen tuna ran out, they pieced together a fishing crew from the available employees and ran one of the vessels to catch more tuna and continue production. By late 2000, three vessels were operating—a situation that continued through Maruha's decision to leave and until arrangements were finalised for the company to reopen as Soltai, the wholly government-owned venture (pers. comm, A. Kukui, 19–22 July 2005).

Before Soltai could start operations, it had to renovate and repair the old Solomon Taiyo facilities. Taiwan (Republic of China) came to the rescue, granting aid seed funding of SBD\$8.6 million (US\$1.7 million), which was used mostly for basic repairs, maintenance of the fleet, and materials for the cannery and to bring back employees from their homes around the country. In September 2001 Soltai opened with an official ceremony in Noro (pers. comm., M. Sibisopere, 18–19 July 2005; pers. comm, A. Kukui, 19–22 July 2005).

According to Soltai's General Manager, Milton Sibisopere, Maruha had stipulated that their shareholding was to be given to the Western Province government 'in recognition for all that the Western Province had done for Solomon Taiyo' (pers. comm., M. Sibisopere, 18–19 July 2005). This meant that 51 per cent of Soltai was owned by the national government through the Investment Corporation of Solomon Islands (ICSI), and 49 per cent by the Western Province government.⁴ The Western Province government was given two of the five seats on the Board of Directors. The Honiara head office was closed and its administrative staff were moved to Noro.

The first couple of years of Soltai's operations saw record catches and a good turnover. Soltai demonstrated that it could meet its ongoing costs and manage production of smoked *katsuobushi* loins sold to Japan, and cans sold domestically and

regionally. Catches fell in 2003, however, and remained low through to mid 2005 (pers. comm., A. Wickham, 15 July 2005; pers. comm., M. Sibisopere, 18–19 July 2005).⁵ By this time Soltai was in steep decline. The Board of Directors had requested an injection of SBD\$20 million from the national government to upgrade the shore base and the fleet and was fighting off the National Provident Fund's efforts to sell the company's assets to recover defaulted loan repayments.

Human resources

Soltai's production had dropped, so it employed fewer people than Solomon Taiyo had, and paid out less in remuneration (Tables 1 and 2). In addition, Soltai's Board of Directors had instituted a new human resources policy. Solomon Taiyo's human resources policy had been based on a public service model that distinguished between salaried staff and workers paid an hourly rate, both of whom were employed on continuing contracts. Staff and workers were paid according to a set scale and received incremental annual increases. Casual workers were employed as needed. This system was criticised for not being commercially focused, and for not providing sufficient incentives for employees to improve performance (South Pacific Project Facility 1999; Hughes and Thaanum 1995).

Soltai's human resources policy, as stipulated by the new Board of Directors, abolished the staff/worker divide. All employees were hired on contracts rather than on a continuing basis—managers on three-year contracts, shore-based skilled administration employees and fleet workers on two-year contracts, and cannery and smoking factory workers on seasonal 10-month or one-year contracts. Very few casuals were hired (pers. comm, A. Kukui, 19–22 July 2005), but new employees were hired on



three-month probationary contracts and let go after that if there was not enough work (pers. comm., Dominic, 21 July 2005; pers. comm., A. Kukui, 19–22 July 2005; pers. comm., J. Pina, 21 July 2005).

In 1999, Solomon Taiyo had two in-house unions (one for staff, one for workers), with which it negotiated remuneration and conditions in a collective agreement. The new Soltai board abolished the unions and stipulated that all Soltai employment contracts be negotiated individually. These included allowances stipulated by legislation, such as for accommodation and education (pers. comm., M. Sibisopere, 18–19 July 2005), but some of the other benefits Solomon Taiyo had provided, such as long-service leave, disappeared in the transition to short-term contracts. Annual pay increments were replaced by incentive payment bonuses; these, however, were not paid because the company did not make a profit (pers. comm., A. Kukui, 19–22 July 2005). Without annual salary increments, employees felt they were being paid less in

real terms because the costs of living—particularly the cost of imports, given the weakening Solomon Islands dollar—were rising (pers. comm., D. Mamupio, 21–22 July 2005).⁶

By some measures Soltai's human resources policy was more commercially sensible than Solomon Taiyo's, but it is questionable whether this contributed to Solomon Islands' economic development in any way. One of Solomon Taiyo's major contributions to the Solomon Islands economy had been to train technical, supervisory and administrative staff, many of whom were later employed elsewhere (Barclay 2001, Solomon Taiyo Ltd 1998). The fact that Soltai had managed to sustain itself for four years without a foreign investor was evidence that Solomon Taiyo had created a pool of skilled and experienced Solomon Islanders (pers. comm., M. Sibisopere, 18–19 July 2005). By 1999, Solomon Taiyo had trained senior crew—engineers, fishing masters and captains—to enable seven pole-and-line vessels to be crewed entirely by

Table 1 Approximate employee numbers (nationals) by department, Solomon Taiyo 1999 and Soltai 2005

Solomon Taiyo 1999		Soltai 2005	
Department	Employees	Department	Employees
Cannery	896	Cannery	250
Fleet and cold store	816	Fleet and cold Store	330
Engineering	188	Engineering	56
Smoking	103	Smoking	80
Finance and commercial	18	Finance	22
Personnel	25	Human Resources	72
Quality assurance	51	Quality control	43
Casuals	~700	Casuals	-
Total:	2,931	Total:	853

Source: South Pacific Project Facility, 1999. *Report on the Valuation of the Solomon Government Investment in Solomon Taiyo Limited*, International Finance Corporation, World Bank, Sydney; Solomon Taiyo Limited, 1996. *Solomon Taiyo Limited Corporate Plan 1996–2000*, Solomon Taiyo Limited, Honiara; Solomon Taiyo Limited, 1998; pers. comm., A. Kukui 19–22 July 2005.



Table 2 Total remuneration paid to Solomon Islanders, Solomon Taiyo 1998 and Soltai 2004

Solomon Taiyo 1998		Soltai 2004	
SBD\$'000	US\$'000	SBD\$'000	US\$'000
20,000	4,000	11,970	1,634

Sources: South Pacific Project Facility, 1999. *Report on the Valuation of the Solomon Government Investment in Solomon Taiyo Limited*, International Finance Corporation, World Bank, Regional Office, Sydney:4; pers. comm., M. Sibisopere, 18–19 July 2005

Solomon Islanders, and a couple with mixed Solomon Islander and Filipino crew.

Soltai, like Solomon Taiyo, made use of donor programs to develop its human resources. Japan's Overseas Fisheries Cooperation Foundation (OFCF) training courses resumed in 2004, and two Soltai staff per year went to Japan for cannery and engineering courses, sponsored by the Japan Far Seas Purse Seining Association. In 2003 and 2004 Soltai received assistance from the Secretariat of the Pacific Community (SPC) to train all crew and officers intensively in safety. SPC also sponsored some Soltai employees take courses in New Zealand (pers. comm, A. Kukui, 19–22 July 2005). Staff from Soltai's Quality Control department were sent to Honiara to participate in a European Union project aimed at raising the Solomon Islands Health Department to a Competent Authority for testing food safety and hygiene requirements for exports to the European Union (pers. comm., I. Mamupio, 21–22 July 2005; pers. comm, A. Kukui, 19–22 July 2005).

Soltai, however, pared back Solomon Taiyo's company-sponsored training program to only those activities addressing the company's immediate training needs rather than its future needs. This change was partly a result of employees being shifted to shorter fixed-term contracts. Instead of sponsoring employees to take Solomon Islands College of Higher Education (SICHE) courses in engineer-

ing and navigation, as Solomon Taiyo had done, Soltai planned to employ graduates who had paid their own way or had scholarships from elsewhere (pers. comm, A. Kukui, 19–22 July 2005). Soltai still provided opportunities for employees to take aid-sponsored training, but put less company resources into the education and training of Solomon Islander employees than had Solomon Taiyo. Soltai thus contributed slightly less than Solomon Taiyo to the development of human resources in Solomon Islands.

Solomon Taiyo was often criticised for its slow progress in localisation (by which expatriate employees were replaced by locals as they became skilled and experienced enough), retaining expatriates in positions that could be filled by locals. The main difference between Soltai and Solomon Taiyo in this respect was that Soltai had local managers-in-training working under the expatriate technical advisors, whereas Solomon Taiyo had no such mentoring program (pers. comm, A. Kukui, 19–22 July 2005). Because Soltai was felt to be a national company—the Managing Director described Soltai as 'the only truly national tuna company in the Pacific'—localisation was not given as high a priority as it had been with Solomon Taiyo (Table 3; pers. comm., M. Sibisopere, 18–19 July 2005).

The head of the organisation was localised, and Soltai continued operations



without some of the management posts Solomon Taiyo had deemed necessary, but most of the other management posts that had been filled by expatriates in 1999 were still filled by expatriates in 2005. Japanese managers in the cannery and engineering departments who had worked for Solomon Taiyo in 1999 were brought back to work for Soltai as technical advisors funded by OFCF. Management of the smoking department had not changed; the same Japanese man who had managed Solomon Taiyo's smoking operations for fifteen years in 1999 was still managing it for Soltai in 2005. This was because since the 1980s Solomon Taiyo's *katsuobushi* production had been managed under contract to a subsidiary of the *katsuobushi* manufacturing giant Yamaki, which ran the smoking process in return for buying all the product at an agreed price. Japanese managers employed by Maruha withdrew in 2000, but the Yamaki subsidiary company decided not to withdraw and continued the contract with Soltai. The job of fleet manager, always held by a Japanese national under Solomon Taiyo,

was held by a Solomon Islander for some time under Soltai, but in 2005 this position was vacant and Soltai was considering expatriates for the position.

The fleet itself changed from being partly to fully localised between 1999 and 2005, but this was simply because the total number of active vessels had dropped relative to the number that had already been fully or partially localised in 1999. When Solomon Taiyo ceased operations, the fleet included 21 pole-and-line vessels and a group purse-seine vessel that was not owned by the company. When Soltai assessed the fleet prior to reopening in 2001, it decided that nine of the pole-and-line vessels were too far beyond repair to be useful. Soltai kept the best 12 vessels, but was only able to keep nine or ten of these operational at any given time (pers. comm, A. Kukui, 19–22 July 2005). In 2005, two more vessels were deemed unusable and tied up at one of the Noro wharves, leaving only seven vessels registered in that year (pers. comm., Licensing Section, 28 July 2005).

Table 3 Expatriates and nationals in Solomon Taiyo 1999 and Soltai 2005

Position	Solomon Taiyo 1999	Soltai 2005
Head of organisation	Japanese	Solomon Islander
Deputy head of organisation	Solomon Islander	Position gone
Human resources manager	Solomon Islander	Solomon Islander
Operations manager	Japanese	Position gone
Financial manager	Australian	Filipino
Commercial manager	Japanese	Position gone
Fleet manager	Japanese	Position unfilled
Cannery manager	Japanese	Japanese
Engineering manager	Japanese	Japanese
Smoking manager	Japanese	Japanese
Quality control manager	Filipina	Filipina
Fleet and engineering employees	900 Solomon Islanders 31 Okinawans 30 Filipinos	300 Solomon Islanders

Sources: Pers. comm, A. Kukui, 19–22 July 2005; Solomon Taiyo Limited, 1996. *Solomon Taiyo Limited Corporate Plan 1996–2000*, Solomon Taiyo Limited, Honiara.



Solomon Taiyo vs Soltai: other economic benefits

While Solomon Taiyo's greatest contribution to the Solomon Islands economy over the years was arguably employment, the company also contributed tax revenues, eased the country's balance of payments situation, paid royalties to reef-owning communities for bait-fishing, and generated a range of spin off businesses. Because Soltai's production was less than half Solomon Taiyo's, it contributed less of these other economic benefits (Table 4).

The transition from Solomon Taiyo to Soltai had mixed effects on economic indicators in Noro. In 1999, the population of Noro was around 3,500 but this had fallen to 2,500 by 2004 (Noro Town Council 2004). On the other hand, the number of businesses operating in Noro increased between 1999 and 2005. The existing National Bank of Solomon Islands branch was joined by a branch of the ANZ Banking Group. A couple of clothes manufacturing companies and

sales outlets had opened, and a successful café was operating in the town. In addition, whereas around 200 people a month were using the local market to sell fresh produce in 1999, around 800 people were selling in the market each month in 2004 (Noro Town Council 2004). Some of this increased activity is, of course, probably explained by the devaluation of the Solomon Islands dollar, which encourages consumers to buy local rather than imported goods.

Because it was smaller than Solomon Taiyo, Soltai offered less opportunities for local business. Solomon Taiyo had bought a lot of fresh foods, especially vegetables, from farming villages around the Noro base to feed its 900 crew and the shore workers for whom it was impractical to return home for lunch. In 2005, there were not enough commuters to warrant a lunch service, and the fleet employed only 300 workers. The smaller fleet also reduced the opportunities for villagers to sell or trade fruit and vegetables for fish with fishing vessels (pers. comm, A. Kukui, 19–22 July 2005).

Table 4 **Contributions to the Solomon Islands economy, Solomon Taiyo in 1998 and Soltai in 2004 (SBD\$ '000)**

	Solomon Taiyo 1998	Soltai 2004
Direct revenue (import/export duties, PAYE, withholding tax, licence fees, payments to the National Provident Fund)	10,000	4,730
Export receipts	150,711	67,770
Domestic payments (supplies for office, factory and fleet, fuel, utilities, telecommunications, port charges)	41,000 ^a	35,170
Baitground royalties	1,500	300

^a No such figure was available for 1998 so this figure is for 1994. In 1998 the payments would likely have been greater due to inflation and greater production (export receipts were SBD\$111,700,000 in 1994).

Sources: South Pacific Project Facility, 1999. *Report on the Valuation of the Solomon Government Investment in Solomon Taiyo Limited*, International Finance Corporation, World Bank, Sydney; pers. comm., M. Sibisopere, 18–19 July 2005; Hughes, A. and Thaanum, O., 1995. *Costly connections: a performance appraisal of Solomon Taiyo Limited*, Forum Fisheries Agency Report No. 95/54, Investment Corporation of Solomon Islands, Honiara.



In 1999, Solomon Taiyo contracted the commercial wing of a local martial arts academy to provide the company's security services. This gave the people who managed the security company—Sijomtak—experience running a small business. Soltai, however, did not contract Sijomtak, instead employing its own security staff (pers. comm., I. Kuvi 1999, 22 July 2005). Soltai also brought its cleaning services in-house, whereas Solomon Taiyo had contracted these out to local companies. So, although Soltai still offered employment opportunities in these sectors, it offered less opportunity for independent private businesses in the area.

Another contract business that had been quite large under Solomon Taiyo was provision of transport by truck or canoe for the commuters—a service that had been contracted out to local businessman Billy Veo under Solomon Taiyo. By 2005, however, most employees lived in Noro, so Soltai only needed to hire one canoe for transport. On the other hand, commuting to and from Noro was widely considered one of the negative social impacts of Solomon Taiyo, largely because the trips could take up to two hours each way, adding greatly to the length of the working day, and because the trucks and canoes were uncovered, exposing the passengers to the cold and rain in bad weather (Sasabe 1993). Soltai has contributed to development in the sense that it has reduced this negative social impact, but other negative impacts arising from the modernising social encounter—alcohol abuse, unplanned pregnancies, sexually transmitted diseases, violence—are likely to have reduced only pro rata with the reduction in operations.⁷ One of the worst negative social impacts of Solomon Taiyo was the unsanitary and overcrowded housing of its employees in Noro (Hughes and Thaanum 1995); Soltai has been unable to improve this situation due to a lack of funds (pers. comm., A. Kukui, 19–22 July 2005).

Soltai's commercial viability

Soltai in 2005 has contributed less to Solomon Islands' development than Solomon Taiyo had in 1999, largely because of its smaller scale (Table 5). This lower production in turn reflected the company's tenuous commercial viability. Solomon Taiyo had not been a very profitable venture, but it had more or less covered its costs over time, and was able to rely on loans from Maruha to cover temporary shortfalls and finance necessary maintenance and upgrades. The nature of the industry means there are inevitably years when companies make losses, so a 'cashed up' investor is vital (pers. comm., A. Wickham, 15 July 2005). Soltai flagged to the national and Western Province governments in mid 2004 that the company would soon be in financial trouble if catches did not improve, and asked for investment to fund necessary renovations and repair work (pers. comm., A. Kukui, 19–22 July 2005; pers. comm., M. Sibisopere, 18–19 July 2005), but neither the national nor the Western Province governments had spare resources to invest in the company.

This compelled Soltai to seek aid donors Japan and the European Union. Soltai sought European Union funding to improve its shore base in order to meet European import standards under the European Union-funded initiative noted earlier (pers. comm., T. Mamupio, 21–22 July 2005) and Japanese aid for production-related training and fleet upgrades (pers. comm., A. Kukui, 19–22 July 2005).

In addition, the company brokered a commercial solution in the form of a deal to produce a new product for export to Italy. The other large locally based tuna company in Solomon Islands is National Fisheries Development (NFD), which since the 1990s has been owned by the multinational company Trimarine. NFD had a couple of Solomon Islands-registered purse-seine

Table 5 **Comparison of commercial viability, Soltai and NFD**

Company	Vessel type	Employees on fleet and shore base	2004 catch (metric tonnes)
Soltai	Pole and line	330	6,882
NFD	Purse seine	75	20,000

Sources: Pers. comm., A. Wickham, 15 July 2005; Solomon Islands Fisheries Department, 2005. Statistics provided by Edward Honiwala during fieldwork, 28 July. Solomon Islands Fisheries Department, Government of Solomon Islands, Honiara.

vessels catching plenty of fish that could be classified under the Cotonou Agreement Rules of Origin as Africa, Caribbean and Pacific (ACP) product and therefore avoid the 24 per cent tariff on imports of processed tuna to the European Union. Trimarine had trading connections to buyers in Italy who wanted cooked frozen loins to process into cans. Loining is the first part of the process for canning, so Soltai could supply this demand from its cannery. Soltai, NFD and Trimarine thus entered into an arrangement whereby Soltai would buy fish from NFD, turn it into loins, then sell it to Trimarine, who then sold it to the Italian company. This new market alleviated Soltai's financial situation somewhat in 2004, but because of problems outlined further below, it did not save the company. In 2005, Soltai need to 'review and restructure' in order to survive (pers. comm., M. Sibisopere, 18–19 July 2005).

The fleet

The biggest drain on Soltai's resources was its fleet. Purse-seine vessels are more expensive than the pole-and-line vessels Soltai used, but since purse-seining is a more efficient (but potentially more environmentally destructive) method of catching fish it ends up being the lower-cost method per tonne of fish caught. NFD required far less

in terms of a shore base than Soltai because its vessels froze their fish on board, then transshipped the fish directly to carrier vessels. Soltai's vessels offloaded fish to be stored on shore, so the company had to employ people to run the cold store (Table 5). Soltai's fleet was not profitable because of the type of fishing, the age of the vessels, and the size of the fleet relative to the expense of running a full shore base (although a larger fleet might have been more cost effective) (pers. comm., A. Kukui, 19–22 July 2005; pers. comm., M. Sibisopere, 18–19 July 2005; pers. comm., A. Wickham, 15 July 2005). Soltai's management wanted to acquire a purse-seine vessel but could not afford to buy one, which led them to consider entering into a joint-venture agreement with a foreign-owned purse-seining company (pers. comm., M. Sibisopere, 18–19 July 2005).

In 2005, Soltai's pole-and-line vessels were all 20–30 years old and cost more to maintain than they generated in catches. Soltai had spent an average of SBD\$3.6 million in repairs for the fleet each year since 2001 (pers. comm., A. Sevillejo, 19 July 2005). Even so, this was only for necessary repairs; it was not enough to keep the fleet running at optimal performance. The lack of resources available for maintenance was visible in the rust streaking Soltai's vessels—Solomon Taiyo vessels had always been painted regularly enough not to rust. A vicious cycle



began. Lack of resources to maintain the fleet fully meant it was not as productive, leading to less revenue and so even less resources were available for maintenance (pers. comm, A. Kukui, 19–22 July 2005). Compounding its technical problems, the fleet in mid 2005 also lacked a manager.

Soltai's request for Japanese aid to help with the fleet situation resulted in Soltai's Managing Director and the Permanent Secretary from the Fisheries Department going to Japan in June 2005 to sign an agreement for grant aid from Japan's Official Development Assistance fisheries aid program. The grant of SBD\$70 million (US\$9.5 million) was used to commission two new pole-and-line vessels from a Japanese shipyard, which are due to be completed and delivered to Solomon Islands in March 2006. The new vessels will be cheaper to run because they have on-board refrigeration capacity (Soltai's older vessels have ice holds) and also will require minimal maintenance for the first few years (pers. comm., M. Sibisopere, 18–19 July 2005).

Soltai management recognised that their pole-and-line fleet was not commercially viable and that any private investor would immediately dismantle the fleet (pers. comm., M. Sibisopere, 18–19 July 2005). Soltai senior managers, however, thought that the fleet brought benefits to Solomon Islands, and so was worth of government support. They cited the 300 jobs on the fleet, with 50 or so more at the shore base, and the benefits those jobs brought to workers' families and to the economy in general. They also cited fleet's benefits to villages near bait-grounds in terms of the royalties the company paid to landowners for use of lagoons for baitfishing and the trade of fish for fruit and vegetables in these villages.

Soltai's need for a reliable, reasonably priced supply of fish for processing was another argument used to bolster the argument for government support for the fleet

(pers. comm., M. Sibisopere, 18–19 July 2005; pers. comm, A. Kukui, 19–22 July 2005). But canneries around the world operate without their own fleets, simply buying the fish from external suppliers. In fact, Soltai had already worked with the NFD and Trimarine in just this kind of arrangement. Another option is to tie distant-water access licenses to selling part of the catch to local processors. Papua New Guinea has done this with distant-water fishing access licenses to ensure supply for processing operations in Madang, Wewak and Lae.

If Soltai's fleet were to be dismantled, it is likely that many of the crew, especially the engineers, fishing masters and captains, could find work in other fishing companies or the merchant marine. The government could sponsor their retraining. Indeed, many former Solomon Taiyo and Soltai crew already work for other companies like NFD. Another option is for Solomon Islands to emulate Kiribati, which requires distant-water access fleets to employ a certain proportion of domestic workers—trained and recruited through schemes operated by agents in Tarawa—as a condition of granting a licence. Such an agency in Honiara could employ former Soltai crew, and would also provide a wider employment opportunity for Solomon Islanders. Recruitment could be dovetailed with the Solomon Islands College of Higher Education's (SICHE) marine training program.

Although none of the managers interviewed were willing to see Soltai lose its fleet, the Human Resources Manager discussed another option—restructuring the fleet. Japan has pole-and-line fleet vessels much larger than those used by Soltai, but Soltai managers were not keen to seek this kind of vessel, largely because moving upscale would once again require foreign investors and technical advisors. The Human Resources Manager was in favour of downscaling to more artisanal vessels,



owned by local fishermen rather than the company, and essentially outsourcing the catching of fish to private individuals (pers. comm, A. Kukui, 19–22 July 2005). There are, however, potential problems with using small-scale vessels to supply a cannery: small boats cost much more to run per tonne of fish than purse-seiners, it is difficult for village-based small-scale operators to meet the food safety and hygiene requirements for product to be exported to the European Union and the United States, and supply can be irregular given village-based fishers' custom obligations and part-time fishing status.

Shore-based infrastructure

The aging fleet was not the only drain on Soltai's funds; the aging shore base infrastructure was also a problem. Soltai had spent SBD\$2.4 million annually in repairs to equipment on shore since 2001 (pers. comm, A. Kukui, 19–22 July 2005), and still several parts of the shore base were not functioning or were functioning sub-optimally. The waste water treatment plant had not worked since 2000, and the fish meal plant needed replacing. Lack of freezing capacity was another constraint. The large bins used for moving fish around on forklift trucks needed to be replaced. The main wharf had rusted and needed repairing (pers. comm., M. Sibisopere, 18–19 July 2005). Continued sales of loins to the European Union required the Soltai factory to reach European Union standards, which was a challenge given the extent of repairs needed (pers. comm., J. Pina, 21 July 2005).

Soltai's processing capacity was 65 metric tons of whole fish a day into loins or cans. In July 2005, however, the plant was processing only 15 to 20 metric tonnes of fish a day, largely due to a lack of freezing capacity for storing finished loins (pers. comm., J. Pina, 21 July 2005; pers. comm., M.

Sibisopere, 18–19 July 2005). To meet European Union importing requirements, the loins had to be 'blast frozen' (dropped down to temperature quickly) before being stored, and a new blast freezer unit was required before production could increase. Cans did not require freezing, but the cashflow problem constrained the company's capacity to buy ingredients or packing materials, thus inhibiting production in 2005. Soltai had the opportunity to supply cans and loins to buyers in Italy, but the buyer wanted large catering-size cans of 800 grams and 2,240 grams, and Soltai needed new equipment to be able to produce tins of this size (pers. comm., M. Sibisopere, 18–19 July 2005).

Any revenue Soltai raised was soon swallowed up in repairs for the fleet and shore base, and also went to loan repayments left over from Solomon Taiyo. Solomon Taiyo's loans, some of which were for employee housing developments in Noro, were rolled together and rescheduled as one debt with the National Provident Fund and passed on to Soltai. From 2002 to 2004, Soltai made SBD\$2.5 million in loan repayments each year to the National Provident Fund (pers. comm., A. Sevillejo, 19 July 2005; pers. comm., M. Sibisopere, 18–19 July 2005).

Freight and productivity

In addition to these internal problems, Soltai's commercial viability was also affected by two external problems that had also plagued Solomon Taiyo, and which made Solomon Islands a less competitive business environment than Thailand, the main competitor country for canned tuna. These problems were freight and productivity. Freight in Solomon Islands suffered from lack of an economy of scale. Bangkok, being a major trade port, has container vessels coming and going daily, charging competitive rates. Noro was supposed to have one vessel a



month, but that was sometimes cancelled. For example, the vessel due to arrive in late June 2005 did not arrive and the next was not scheduled until late August. Soltai's useable cold storage area was full, so the freight delay blocked production. Furthermore, because Solomon Islands is an out of the way destination with few freight services, and therefore little competition, freight companies charge higher rates (Hughes and Thaanum 1995). This situation is only likely to improve if greater activity at Noro raises the demand for freight services, allowing economies of scale to improve prices and reliability.

Soltai's workers were skilled and experienced, and the quality of their work was high. Solomon Taiyo and Soltai had gradually improved the 'yield rate'—the amount of export grade flesh yielded from each fish—since the 1990s, but it was still not at the level of Thailand's operators. Solomon Islander workers' hourly wage rates were competitive with those in Thailand, but for several reasons the overall cost of labour per tonne of product was higher for Solomon Taiyo and Soltai than in Thailand. One reason was that social custom and labor regulations in Solomon Islands dictated that workplaces provide more allowances and other benefits to employees than was the case in Thailand. For example, the company provided workers' transport to and from the workplace. The company collected the rubbish for the Noro residential area, and in the past had helped fund the local police service (Barclay 2001). These factors add to overall labour costs in Solomon Islands. Another facet of productivity is the speed at which workers produce, and their commitment to their cash work. Because Solomon Islands workers tend to own land and are thus not reliant on cash work for survival, and because Solomon Islanders tend to afford less priority to cash work than workers elsewhere, they tend to work more slowly and value cash work less than

workers elsewhere. This may change if poverty levels rise in Solomon Islands or changed tenure systems alienate people from their land, but these would arguably not be ideal outcomes. Perhaps clever human resources strategies specifically tailored to Solomon Islands' economic culture may be able to alleviate productivity problems.

Marketing

One of the key differences between Solomon Taiyo and Soltai was that Solomon Taiyo had been the beneficiary of Maruha's global trading networks and decades of seafood marketing experience, whereas Soltai had limited international trading and marketing expertise. Solomon Islanders had been involved in minor trading for procurement and for sales of unprocessed fish in Solomon Taiyo, and they continued to do this for Soltai. In addition, Soltai had developed small new markets for its canned product around the Pacific and in Australia and New Zealand. The most valuable part of the business, however, was the trade to the lucrative markets of Europe (for cans) and Japan (for *katsuobushi*). Maruha had explicitly reserved these trading relationships outside the joint venture through separate marketing agreements. Since the 1970s actual tuna fishing has progressively grown less profitable, with profit concentrating in the trading and processing sectors (Schurman 1998).

Soltai's commercial viability has undoubtedly been hampered by its lack of international trading and marketing capacity. The company attempted to work around the lack of international trade connections and marketing expertise by forming strategic alliances such as the *katuobushi* deal with the Yamaki subsidiary, the loining deal with NFD and Trimarine, and the potential deal with a purse-seine



company being explored in 2005. The downside of these partnerships in the absence of wider trading connections was that Soltai could not 'shop around' for the best deal.

If Soltai had access to specialist seafood marketing expertise it might be able to (re)create markets for pole-and-line product on the grounds of environmental 'friendliness' by informing consumers in wealthy countries of the environmental benefits of the pole-and-line method and thus accessing that corps of consumers willing to pay a premium for environmentally friendly products. If pole-and-line product were to be developed into a brand, premium markets could drive a revival in the pole-and-line method of fishing. Pole-and-line *katsuobushi* could also possibly be differentiated in the Japanese market this way. Until now Solomon Islands pole-and-line skipjack has not been marketed in Japan specifically in terms of fishing method or country of origin (pers. comm., Nakamura, 22 July 2005). There is already a market for fresh pole-and-line skipjack in Japan, which is often eaten as *tataki* (seared rare skipjack loins). The Fijian company Tosa Bussan exports pole-and-line *tataki* loins to Japan.

Marketing studies are needed to explore these possibilities. A seafood marketing expert could be engaged for the target export destinations to research the options, report on them and set up trade contacts. Another option is for Soltai managers to utilise the Pacific Islands Forum Secretariat's Pacific Islands Trade and Information Commission (PITIC), which maintains offices in Japan, China, New Zealand and Australia and can help in a range of ways, such as setting up meetings with potential buyers (PITIC 2002). Cook Islands has used PITIC offices in Japan and China to set up successful trade relationships for its marine product exports.

The Board of Directors

Another factor likely to have affected Soltai's commercial viability has been the composition of the Board of Directors. According to management the Soltai Board of Directors has been much more 'hands on' in setting policy for the company than was the Solomon Taiyo Board of Directors. Solomon Taiyo was seen as being directed from the Overseas Operations Section of Maruha's head office in Tokyo, via its seconded managers in Solomon Taiyo, with whom it maintained daily contact (Barclay 2001). Having a local Board of Directors direct Soltai rather than a foreign company was seen as a victory in terms of localisation (pers. comm., M. Sibisopere, 18–19 July 2005), but unfortunately it seems to have been a loss in terms of commercial viability. Both the ICSI and Western Province representatives to the Board were appointed on political grounds rather than on the quality of commercial advice they could bring to Soltai. More broadly, the Board's members have very little private sector track record of any kind, and certainly none in the international tuna industry.

If the Board of Directors were run differently, Soltai might be able to avoid some of the pitfalls of state-owned enterprises. If the Board were selected with more attention to previous success in private sector fishing and/or seafood processing, the company's chances of success could be improved. Of course, in the short to medium term, this would require allowing foreigners sit on the Board. Another solution would be to adopt the model used by the PAFCO cannery/loining plant in Fiji. PAFCO, as a state-owned enterprise, has a Board of Directors filled with government appointments, but the Board does not set commercial strategy for the company. Since 1999, commercial strategy has been set by the US seafood production giant Bumble Bee, which has a relationship with PAFCO somewhat like the



'strategic alliance' Soltai has with the Yamaki subsidiary for *katsuobushi* production. One or two Bumble Bee managers are stationed at PAFCO to work with PAFCO managers to run the company, while Bumble Bee buys or arranges the marketing of all of PAFCO's exported loins and cans. PAFCO's Board thus has more of an oversight role, making sure PAFCO's directions are in the interests of Fiji, while people with a track record of experience and success in PAFCO's field make the commercial decisions.

Restructuring

In mid 2005, Soltai's management were considering options for restructuring to improve profitability—namely, breaking the company up into its constitutive production units, because each production unit had different commercial constraints and opportunities (pers. comm., M. Sibisopere, 18–19 July 2005). The fleet could clearly not be privatised; the only alternative to having it government owned and managed in the short to medium term would be to break it up and sell its few saleable assets. Soltai management hoped the government would choose to support the continued operation of the fleet, with its engineering and wharf facilities, as an exercise in social welfare for the 350 employees and their families, and for the national self-esteem derived from owning and running a fishing fleet. Considering the vast amount of company revenue (SBD\$12 million since 2001) and aid money (SBD\$78 million from Taiwan and Japan since 2001) spent on the fleet already, however, it is doubtful the social and national benefits would outweigh the financial costs of continuing the fleet at government expense. Under current conditions, there is no market willing to pay a premium for pole-and-line caught fish, so even if repairs and upgrades were financed by aid donors the fleet would probably still run at a loss.

Notwithstanding the upgrades and repairs needed in the shore-based production facilities, the cannery/loining plant could probably be privatised or commercialised in some way because of the great demand for loins in the lucrative markets of the European Union and United States. Selling the factory outright would probably not be the best option since in its current state of decrepitude it could garner only a low price and because a private owner could simply strip/sell the assets and shut the operation down should it see fit (a politically unpopular outcome). A better option might be to lease the company to an experienced company, at a low rent at first, on the understanding that the lessee would undertake necessary upgrades. Then, if that company chose to withdraw, the government could safeguard the jobs and the economic contribution the operation generates. A government-owned sashimi packing plant in Marshall Islands, Fish Base, has been managed in this way for more than a decade. Soltai's smoking factory had already effectively been run by private sector interests for many years, so it was clearly profitable—to the Japanese production management and buying company if not necessarily to Soltai. Both loining/canning and smoking thus have the potential to be commercially viable through partnerships between the government shareholding agency ICSI and private sector investors.

Conclusion

In the first couple of years it was so exciting. The government and the public thought we would fail in six months without the Japanese. It felt so good to prove that we could make a go of it (pers. comm., M. Sibisopere, 18–19 July 2005).

Solomon Islands and other Pacific island countries hoping to generate economic development from domestic tuna fisheries



and onshore processing can learn from the factors that have affected the economic sustainability of Solomon Taiyo and Soltai. Some of the reasons for Soltai's financial trouble in 2005 were intractable. Neither the Board of Directors nor Soltai's managers could do much about Solomon Islands' high-cost production environment, for example. Similarly, the Solomon Islands government has been unable to make up for the loss of Maruha's cash for capital investment and covering losses during down cycles and its international trading and marketing expertise.

Soltai's senior managers strongly believed Soltai should remain a state-owned enterprise.

If the government doesn't put some money in soon Soltai will have to be privatised. This would be a big loss to the nation, we should be proud of Soltai as a national company, and we should get the benefits from it being a fully national company. I would like to hand Soltai over to the next generation after I retire (pers. comm, A. Kukui, 19–22 July 2005).

Unfortunately, running the company as a state-owned enterprise has risked losing the economic, and psychological, benefits of national ownership. While a wholly nationally-owned successful Soltai would boost national self-esteem, the other side of the coin is that a failed nationally-owned Soltai will compound negative stereotypes about Solomon Islanders being unable to run businesses.

Soltai needs more commercial expertise and capital. Currently the best place to source these inputs is from foreign private sector investors, and private investors will require a measure of control over the company to find the risk of investing worth bearing. Some hard decisions must be made if Soltai is to be saved, but given the current economic situation in Solomon Islands, not saving the company will be even harder. It is imperative

that the Solomon Islands government take action now to make Soltai more commercially viable, or risk losing the company and its economic benefit potential altogether.

Notes

- ¹ Ostensibly caused by 'ethnic' tensions, it is more accurately described as a collapse of state functions, especially the law, order and justice systems.
- ² The higher cost of pole-and-line product was also offset by tariff advantages in the European market because Solomon Islands was an 'Africa, Caribbean and Pacific' (ACP) country under the Lome Convention. For further information about this trade situation see (Grynberg 1998).
- ³ For further details on the financial record of the company, the company structure and reasons for its lack of profitability see (Hughes and Thaanum 1995; South Pacific Project Facility 1999; Barclay 2001).
- ⁴ The arrangements for Soltai's ownership took place when the national government was at its most dysfunctional, between the coup and the Townsville Peace Agreement. The head of ICSI declined to be interviewed about Soltai in 2005, so it was not possible to confirm when and how the shareholding was transferred to the Western Province.
- ⁵ Managers from Soltai and the other large domestic skipjack fishing company National Fisheries Development said that their catches had been low from 2003–05. Interestingly, no such drop in productivity for the skipjack fishery was noted by national or regional fisheries data reports (Diake 2005; Molony 2005).
- ⁶ One group of workers were paid better under Soltai than they had been under Solomon Taiyo, those in the smoking department. Under Solomon Taiyo there had been persistent rumours that workers in the smoking department had worse conditions than workers in the rest of the company, and Soltai was able to ensure financial recompense (pers. comm, A. Kukui, 19–22 July 2005).
- ⁷ For more information on negative social impacts see Barclay (2004).



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